THE KSA PERSPECTIVE

For Footwear Management

Published by Kurt Salmon Associates

June 1984

KSA's 1983 Financial Performance Profile of the Footwear Industry

Return to normal in 1983

The interruption in profitability that public footwear companies suffered in 1982 seems to have been minor and temporary. The impact of the recession was roughly even, and the 30 companies in this year's Profile were able to shrug it off and resume their long-term pattern of gradually improving sales and earnings.

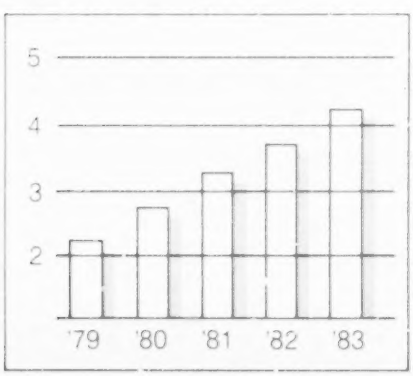
Retailers led the way to a gain of 8.1% in composite net sales for this diverse group of manufacturers, importers, retailers and multi-industry companies. The total volume figure of $14.3 billion slightly ahead of the 64-company apparel sample was a record. Net profits after taxes and extraordinary items rose 14.9% to $548 million — also a record.

Overall, this is a more mature industry than apparel, with average sales per company close to one half billion, vertical integration from manufacturing to retail, complex sourcing, and multiple products are common.

Behind the overall figures lie some mixed results for the different sectors of this industry — particularly among the retailers. The four large firms in that sector registered a 182% jump in bottom line profits on a sales gain of 11.6%. However, half of the $45 million increase in profits was due to a turnaround in the miscellaneous line — from $1E.2 million of miscellaneous expenses in 1982 to $7.4 million in income last year. *Edison Brothers* accounted for $9.6 million of the swing, and *Morse Shoe* had $14.0 million of it.

A steady increase in gross profit margins — from 35.3% in 1979 to 36.6% in 1983 — has helped the industry's drive to more profitability. There is a trend here led by manufacturers, who have

Net Sales (Billions) Manufacturers & Retailers

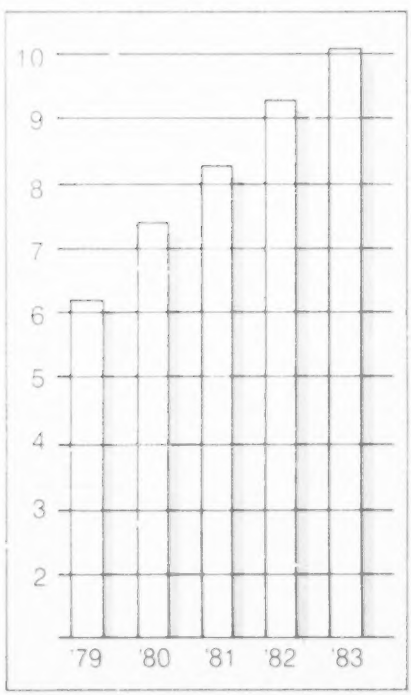


Leading Performers

In sheer volume, retailer *Melville* is the industry leader in sales, after-tax income and growth. *Brown Group* and *U.S. Shoe*, both vertical companies, follow in volume and both showed good growth in 1983 along with *Nike* and *Edison Brothers*. In percentage terms, the biggest gainer was *Stride-Rite*, with a jump of 34%, fol-

cont'd on p. 3

Net Sales (Billions) Misc. & Multi-Industry



Copyright June 1984 by Kurt Salmon Associates, Inc.

Footwear Performance Profile — 1983

Manufacturers and Retailers

'83 Sales Rank	Company	Net Sales ($000) '83	Net Income ($000) '83	Net A.T. Inc on Sales % '83	Return on Total Equity % '83	Total Debt to Assets % '83	Return on Total Assets % '83	Sales to Total Assets '83	Gross Profit % '83	Operating Earnings % '83	Inventory Turns '83	Return on Invested Capital % '83
11	Amfesco (M&R)	74,441	4,806	6.5	15.47	21.1	26.97	1.1	31.1	14.1	18.74	1.1	1.44	17.0	20.61	18.21	14.64	4.6	4.09	8.7	26.15	1.2
16	B.B. Walker (M&R)	54,537	962	2.0	4.38	69.1	14.09	22.02	77.1	1.1	-4.29	26.01	1.78	8.15	24.63	17.17	6.22	17.18	3.44	11.12	-8.67	21.22
10	R.G. Barry (M&R)	110,511	4,617	4.2	9.93	17.20	4.64	17.11	62.1	2.1	1.76	17.22	1.68	11.8	32.83	10.1	1.84	16.20	5.06	6.8	2.05	17.21
14	Candie's (M&R)	66,471	4,222	7.6	13.16	5.2	17.44	4.8	22.1	19.12	11.89	3.2	1.55	32.3	47.62	1.5	33.1	4.5	63.36	1.1	17.93	4.1
20	Carl Degheldre (M&R)	1,464.21	345.35	15.5	8.73	21.4	4.58	20.9	16.1	20.19	-4.14	21.4	1.65	13.2	13.45	21.19	14.71	21.15	7.29	4.3	-7.30	20.4
6	Collins & Aikman (M)	93.67	11,111	5.6	5.80	7.8	15.52	6.3	44.1	6.2	8.62	10.14	1.62	14.21	34.11	8.7	13.28	6.2	2.48	17.15	10.94	10.14
11	Craddock-Terry (M&R)	96,400.13	3,324.12	3.4	14.19	6.1	16.49	14.14	46.1	5.4	1.47	16.14	1.43	19.28	36.03	7.11	5.36	14.19	2.53	16.18	4.44	16.19
17	Durell Greetham (M)	76,197.13	2,342.14	3.1	9.12	3.3	20.50	1.8	19.1	14.19	16.45	2.1	3.15	1.9	21.33	14.12	16.33	3.3	3.47	10.14	20.50	3.5
1	Edison Bros. (M&R)	1,021,500.1	48,400.2	4.7	19.16	14.17	14.97	8.15	41.1	9.11	9.99	5.16	2.08	1.7	36.19	8.1	9.27	8.15	1.69	9.13	14.61	8.15
15	Hyde Athletic (M&R)	44,507.15	1,962.12	4.5	8.40	5.6	14.09	11.16	52.1	14.8	9.53	7.7	1.45	16.16	38.54	6.8	14.14	5.4	2.25	20.19	12.40	9.4
7	Kidde (Volume Shoe) (R)	141,696	1,806.11	1.3	2.84	13.14	16.03	16.5	62.1	2.4	6.24	14.13	2.16	3.11	41.04	3.2	5.48	15.14	1.18	12.17	8.87	12.12
3	Melville (R)	3,923,220	176,260	4.5	21.20	20.21	11.60	2.62	40.1	8.10	8.58	11.20	2.34	3.5	40.38	5.4	6.90	12.21	2.95	14.15	10.86	11.20
2	Nike, Inc. (M)	867,111.1	77,094.1	8.9	8.57	4.4	23.56	2.3	52.1	4.6	11.27	4.5	1.70	10.13	41.46	12.13	16.70	2.1	2.42	18.16	22.67	2.1
19	Penobscot Shoe (M&R)	74,228.19	142.76	0.2	0.40	12.17	1.48	18.17	15.1	21.20	1.25	16.17	1.35	15.17	27.60	16.18	2.15	19.22	4.74	7.5	1.46	18.17
18	Shaer Shoe (M&R)	72,814.18	1,139.16	1.6	4.79	9.18	12.63	12.18	21.1	17.22	1.68	6.18	2.01	7.4	18.71	20.22	7.11	11.16	12.84	2.2	12.63	7.18
20	Simco (M&R)	73,247.17	-4,113.18	-5.6	-10.19	13.1	-9.06	19.16	10.1	22.21	-1.05	19.15	1.44	17.19	52.04	1.1	-2.91	20.17	1.55	22.22	-9.06	19.16
5	Stride Rite (M&R)	261,096.3	16,405.3	6.3	8.56	6.10	15.85	7.10	41.1	9.7	9.32	8.11	1.67	12.18	41.14	4.3	10.61	7.8	2.31	19.20	12.59	8.9
8	Suave Shoe (M&R)	111,502.16	2,001.15	1.8	1.82	16.7	6.45	15.7	34.1	12.13	3.88	14.6	2.13	4.6	18.67	19.19	3.71	16.7	5.20	4.4	5.12	14.7
12	Tony Lama (M&R)	76,185.10	3,014.9	3.9	5.08	8.7	10.17	13.14	32.1	14.16	6.86	12.10	1.34	20.20	25.53	15.15	7.78	9.9	1.86	21.21	8.66	13.11
21	Wellco Ent. (M&R)	54,705.20	121.21	0.2	-19.03	32.11	-18.60	21.11	41.1	3.13	-10.89	22.9	1.08	21.13	-6.00	22.20	-31.72	22.10	2.66	15.3	-13.66	22.10
9	Weyenberg (M&R)	103,684.10	3,969.10	3.8	8.76	11.15	15.34	9.10	39.1	12.15	9.28	9.8	2.46	1.1	32.40	11.10	6.66	13.12	5.26	5.6	15.34	9.8
4	Wolverine (M&R)	261,113.4	7,159.8	2.7	2.02	15.12	6.43	16.13	44.1	6.11	3.49	15.12	1.72	9.14	30.60	14.14	7.13	10.11	3.07	13.11	4.81	15.13

Miscellaneous and Multi-Industry

Company	Total Sales ($000)	Estimated Footwear Sales ($000)	Net Income ($000)	Net A.T. Inc on Sales %	Return on Total Equity %	Total Debt to Assets %	Return on Total Assets %	Sales to Total Assets	Gross Profit %	Operating Earnings %	Operating Earnings Footwear Only %	Inventory Turns	Return on Inv. Cap. %
Brown Group (M&R = 70%)	1,500,504	1,055,337	67,199	4.47	17.23	39	10.41	2.32	40.87	8.45	10.1	3.16	14.49
Chese-Ponds (M = 8%)	1,685,417	143,799	127,878								3.7		
Genesco (M = 27%, R = 41%)	639,761	435,037	-1,971	-.30	-2.77	78	-.60	1.95	33.09	2.36	4.0	3.12	-.79
Interco (M&R = 21%)	2,566,606	546,041	85,762	3.34	6.38	34	5.51	1.65	31.44	6.66	10.5	2.63	6.51
Intl. Seaway (Imp. = 100%)	27,313	27,313	206	75	2.06	31	1.42	1.88	24.88	3.80		3.77	2.06
May Co. (Volume Shoe)	3,654,000	319,000	142,000								12.7		
Melville (R = 34%)	3,923,220	1,333,895	176,260	4.49	21.20	44	11.60	2.62	40.28	8.99	9.6	3.73	18.47
SCOA (R&Imp. = 19%)	1,155,051	215,730	36,084								1.6		
Spencer (R = 45%)	95,374	42,630	804	.84	4.76	43	2.67	3.16	34.64	3.11	0.8	3.18	4.34
U.S. Shoe (M = 39%, R = 15%)	1,254,138	670,903	60,116	4.79	17.51	41	10.18	2.12	39.01	9.56	10.7	3.56	14.93
Wiener (R = 45%)	46,017	20,708	-1,063	-2.31	-12.38	37	-7.73	3.35	42.03	-.32		2.61	-10.75

Estimation of footwear sales breakdowns by Manufacturing (M), Retailing (R), and Importing (Imp.).

What the Ratios Mean

Net After-Tax Income on Sales — Net income divided by net sales and reported as a percentage. This figure is frequently labeled Return on Sales, although KSA declines use of this title since extraordinary items are included in net income. Net sales is gross sales less discounts and allowances for returns and bad debts.

Return on Total Equity — Net income divided by total equity, reported as a percentage. The figure is a good measure of performance on behalf of the owners of the firm.

Total Debt to Assets — The sum of current liabilities, deferred liabilities, and long-term debt, divided by the book value of total assets. The quotient indicates the proportion of assets supported by creditor-supplied funds. Values usually range between zero and one. (Values greater than one indicate that a negative shareholders' equity exists.) Values approaching one indicate the possibility of high financial risk exposure.

Return on Total Assets — Net income divided by the book value of total assets, converted to a percentage. This figure is often used as an indicator of the return on the total investment in the firm, regardless of financing, although most analysts correctly suggest that to make this measure more precise, one must add tax-adjusted interest payments to net income before dividing.

Sales to Total Assets — Net sales divided by total assets. This result is frequently called total asset turnover or simple turnover. Again, we are reluctant to use these terms due to the inclusion of intangible items in the total asset base. A high ratio may indicate inadequate planning for growth and/or operating at or above full capacity. A low ratio suggests overinvestment or inefficient use of assets.

Gross Profit — Net sales less cost of goods sold, divided by net sales and multiplied by 100 to make a percentage. The result is a good proxy for manufacturing profit.

Operating Earnings — Net sales less cost of goods sold as well as selling, general and administrative expense, divided by net sales and reported as a percentage. It is a good measure of a company's profitability on its primary, continuing operations.

Inventory Turns — Cost of goods sold divided by the average of the ending inventory for the year and prior year total inventory.

Return on Invested Capital — Net income divided by the sum of total equity and long-term debt. Many consider this figure to be the best single measure of performance for it represents the return to committed capital and is resistant to attempts to windowdress public financial statements.

Classifications

Manufacturing:
Companies deriving 50% or more of sales from footwear manufacturing.

Retailing:
Companies deriving 50% or more of sales from footwear retailing.

Miscellaneous & Multi:
- Companies for whom a breakout between manufacturing and retailing could not be determined.
- Companies for whom a breakout between manufacturing and retailing was about 50–50, or could not be determined.
- Companies with 20% to 50% of sales in either manufacturing or retailing.
- Importers.

Conglomerates:
Companies whose footwear volume was less than 20% of total sales, but more than $50 million. A list of these companies, along with available sales information, is found above. They do not appear elsewhere in the Profile.

Specific assignments within these four groups were based upon data furnished by the companies.

cont'd from p. 1

lowed by *Nike*, which advanced 25% over its 1982 sales (15% of it was in footwear, and the balance in apparel).

An examination of performance indices brings some manufacturers and wholesalers to the top, with *Caressa* and *Amfesco* leading the way in after-tax income percentages. Superior performances in several categories were also posted by *Daniel Green*, *Nike* and *Melville* again. Honors for return on total equity and return on invested capital go to *Amfesco*, suppliers of low-cost jogging shoes to K-Mart and other chains. *Simco* stores led on gross margin, at 52%, but lost money due to declining sales and increased SG & A costs.

Analysis of several years' data for all companies shows *Amfesco* to be the runaway leader in average net income (12.6%), return on equity (43.6%) and return on invested capital (32.2%). Much of this strong performance was due to a favorable tax situation enjoyed by the company.

cont'd on p. 4

Disclaimer

The information presented in this Performance Profile was obtained from available annual reports made by public companies to their stockholders and to the Securities and Exchange Commission. While we believe the information furnished to be reliable, no representations are made as to the accuracy thereof. Kurt Salmon Associates assumes no responsibility for any errors in the Performance Profile, whether of omission or commission. Information presented herein is based solely on publicly-available data; the confidentiality of KSA's client relationships has been maintained throughout. KSA's Financial Performance Profile is intended solely for the statistical information of the purchaser. It is not a representation, prospectus, or circular in respect of any stock or security of any corporation. The data and comments contained herein do not constitute investment advice in any form.

Industry Segment Results and Top Performers

Industry Segment/ Top Performers and Totals by Year*	No. of Firms Reporting	Sales ($M)	Net Income ($M)	Net A.T. Income on Sales	Return on Total Equity	Total Debt to Assets	Return on Total Assets	Sales to Total Assets	Gross Profit	Oper. Profit	Inv. Turns	Return on Invested Capital
Manufacturers												
Amfesco		73.541	4.106	5.58	29.97	52	18.19	1.44	30.62	14.48	4.09	26.15
Nike		867.255	57.304	6.61	33.66	52	11.25	1.70	31.97	16.70	2.42	22.67
1983	14	1,688,900	91,555	5.08	15.38	45	8.38	1.67	32.31	11.43	2.64	12.62
1982	15	1,594,694	105,196	4.71	19.19	56	8.36	1.76	31.41	11.88	3.29	13.61
Retailers												
Edison Brothers		1,021,500	38,900	4.75	16.97	41	9.99	2.08	36.18	9.27	3.69	14.61
Kobacker Stores		131,356	3,808	2.90	16.63	62	6.29	2.16	44.09	5.49	3.18	8.87
1983	5	1,486,537	31,995	4.26	16.22	43	9.21	2.16	38.23	8.17	3.88	12.81
1982	4	1,558,143	26,458	1.76	6.70	45	3.67	2.09	36.48	4.96	3.16	5.05
Misc. & Multi-Industry												
Melville		3,563,291	176,260	4.49	21.20	44	11.80	2.62	40.28	9.39	3.73	18.47
U.S. Shoe		1,254,138	60,116	4.79	17.51	41	10.18	2.12	39.01	9.57	3.56	14.93
1983	8	10,152,913	387,313	3.86	14.37	42	8.29	2.15	37.41	8.01	3.20	11.31
1982	8	9,266,084	378,634	4.09	15.25	43	8.69	2.12	36.90	8.25	3.16	11.93
Composite Total												
1983	30	14,269,202	586,253	4.11	14.77	43	8.41	2.04	36.60	8.64	3.14	11.75
1982	30	12,995,922	510,208	3.93	14.89	45	8.05	2.05	35.91	8.49	3.18	11.41

* *Industry segment top performers based on return on total equity ranking in segment. Rankings for 1982 have been recalculated to reflect new profile mix.*

cont'd from p. 3

Does size help? Five years of results indicate that it does. After-tax income for the five largest footwear companies has been 4.63%, led by *Nike* at 6.31%. Of the top ten companies in size, only *Morse Shoe* and *Genesco* have failed to achieve over 4% net income.

Success Factors

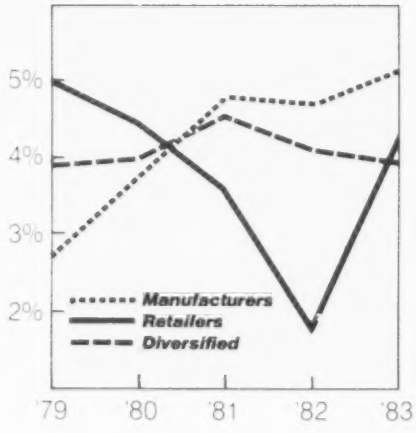
Can anything be learned by studying the top performers? At first glance, there seems to be little in common among them, but each seems to be fulfilling the needs of specific market niches.

Also, the effect of employing successful sourcing strategies becomes apparent in the cases of firms like *Caressa, Amfesco* and *Nike*, which import heavily. In the next tier, *Brown Group, U.S. Shoe*, and *Stride-Rite* all pursue aggressive sourcing strategies and have diversified into retail and a broader range of products. Companies relying 100% on domestic manufacture of footwear generally did not do well in 1983, unless they offered something special to the retailer.

At retail, discount operations clearly enjoyed an advantage in 1983 with the continuing trend towards purchase of casual and athletic footwear. The U.S. consumer continues to look for value in all purchases.

The typical domestic footwear manufacturer found 1983 to be a difficult year, and 1984 does not promise much in the way of improvement. So long as they remain purely manufacturers whose products, marketing, and cost structures are determined by their established production facilities in the U.S., these companies will be at a competitive disadvantage. As they join other footwear firms in the trend towards becoming flexible, diversified, marketing-driven organizations, their performances in all respects will improve.

Net A.T. Income on Sales



Kurt Salmon Associates
management consultants

KSA

350 Fifth Avenue, New York, New York 10118 • 400 Colony Square, Atlanta, GA 30361

Dallas • Greensboro • Los Angeles • Nashville • Princeton • Montreal • United Kingdom • West Germany • Spain • Switzerland • Hong Kong